

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
BISMARCK, NORTH DAKOTA

*FINANCIAL STATEMENTS*

AS OF

DECEMBER 31, 2004 AND 2003

AND

*INDEPENDENT AUDITOR'S REPORT*

# MIDWEST CORPORATE FEDERAL CREDIT UNION

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Supervisory Committee of  
Midwest Corporate Federal Credit Union  
Bismarck, North Dakota

We have audited the accompanying balance sheets of Midwest Corporate Federal Credit Union as of December 31, 2004 and 2003 and the related statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwest Corporate Federal Credit Union as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the years ended December 31, 2004 and 2003 taken as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended December 31, 2004 and 2003 has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.

January 14, 2005

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**

**ASSETS**

	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,015,573	\$ 3,235,626
Interest bearing deposits with other financial institutions	136,511,238	161,151,501
Investment securities		
Available-for-sale	1,238,366	3,245,782
Held-to-maturity	500,000	0
Loans	14,503,804	3,246,152
Interest receivable	434,540	344,499
Other receivables	41,480	71,855
Future dated ACH	12,170,920	14,467,462
Prepaid expenses and other assets	59,078	68,102
Property and equipment (net of accumulated depreciation)	47,535	58,424
Other investments	299,980	299,980
<b>TOTAL ASSETS</b>	<b>\$ 167,822,514</b>	<b>\$ 186,189,383</b>

**LIABILITIES AND MEMBERS' EQUITY**

<b>LIABILITIES</b>		
Members deposits	\$ 141,917,400	\$ 162,000,742
Borrowed funds	6,800,000	3,168,332
Future dated ACH	12,170,920	14,467,462
Interest payable	133,455	44,447
Accrued expenses and other liabilities	52,382	46,203
Total liabilities	<b>\$ 161,074,157</b>	<b>\$ 179,727,186</b>
<b>MEMBERS' EQUITY</b>		
Regular reserve	\$ 3,087,718	\$ 3,087,718
Reserve for contingencies	0	104,980
Undivided earnings	3,660,054	3,268,446
Unrealized gain on securities available for sale	585	1,053
Total members' equity	<b>\$ 6,748,357</b>	<b>\$ 6,462,197</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 167,822,514</b>	<b>\$ 186,189,383</b>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>INTEREST INCOME</b>		
Loans	\$ 309,329	\$ 60,617
Investment securities	34,329	21,153
Deposits with other financial institutions	<u>2,689,529</u>	<u>3,137,581</u>
Total interest income	<u>\$ 3,033,187</u>	<u>\$ 3,219,351</u>
<b>INTEREST EXPENSE</b>		
Deposits	\$ 2,172,880	\$ 2,551,566
Borrowed funds	<u>230,068</u>	<u>49,776</u>
Total interest expense	<u>\$ 2,402,948</u>	<u>\$ 2,601,342</u>
<b>NET INTEREST INCOME</b>	<u>\$ 630,239</u>	<u>\$ 618,009</u>
<b>NON-INTEREST INCOME</b>		
Other income	<u>\$ 283,410</u>	<u>\$ 242,553</u>
<b>NON-INTEREST EXPENSES</b>		
Salaries and employee benefits	\$ 286,732	\$ 241,947
Occupancy expenses	15,936	15,518
Other expenses	<u>324,353</u>	<u>315,681</u>
Total non-interest expenses	<u>\$ 627,021</u>	<u>\$ 573,146</u>
<b>NET INCOME</b>	<u>\$ 286,628</u>	<u>\$ 287,416</u>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF MEMBERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>Regular Reserve</u>	<u>Reserve for Contingencies</u>	<u>Undivided Earnings</u>	<u>Unrealized gain/loss on available for sale securities</u>	<u>Total</u>
Balance - January 1, 2003	\$ 3,087,718	\$ 104,980	\$ 2,981,030	\$ (65)	\$ 6,173,663
Net income	0	0	287,416	0	287,416
Change in unrealized gain (loss) on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,118</u>	<u>1,118</u>
Total comprehensive income					<u>\$ 288,534</u>
Balance - December 31, 2003	\$ 3,087,718	\$ 104,980	\$ 3,268,446	\$ 1,053	\$ 6,462,197
Transfer	0	(104,980)	104,980	0	0
Net income	0	0	286,628	0	286,628
Change in unrealized gain on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>(468)</u>	<u>(468)</u>
Total comprehensive income					<u>\$ 286,160</u>
Balance - December 31, 2004	<u>\$ 3,087,718</u>	<u>\$ 0</u>	<u>\$ 3,660,054</u>	<u>\$ 585</u>	<u>\$ 6,748,357</u>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 286,628	\$ 287,416
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	15,601	10,026
Amortization of premium on securities available-for-sale	2,510	1373
Gain on sale of investments available-for-sale	(523)	0
Gain on sale of equipment	(3,650)	0
Effects on operating cash flows due to changes in:		
Interest receivable	(90,041)	63,906
Other receivables and prepaid expenses	39,398	(767)
Interest payable	89,008	(69,145)
Accrued expenses and other liabilities	6,179	4,458
Future dated ACH	2,296,542	(4,122,703)
Future dated ACH	<u>(2,296,542)</u>	<u>4,122,703</u>
Net cash provided by operating activities	<u>\$ 345,110</u>	<u>\$ 297,267</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in interest bearing deposits with other financial institutions	\$ 24,640,263	\$ 29,684,416
Increase in loans	(11,257,652)	(972,732)
Proceeds from sale of investments available-for-sale	2,004,961	0
Proceeds from sale of equipment	3,649	0
Purchase of securities available-for-sale	0	(2,244,847)
Purchase of securities held-to-maturity	(500,000)	0
Purchase of other investments	0	(175,910)
Purchase of property and equipment	<u>(4,710)</u>	<u>(35,655)</u>
Net cash provided by investing activities	<u>\$ 14,886,511</u>	<u>\$ 26,255,272</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in members' deposits	\$ (20,083,342)	\$ (14,043,424)
Increase (decrease) in borrowed funds	<u>3,631,668</u>	<u>(11,731,994)</u>
Net cash used by financing activities	<u>\$ (16,451,674)</u>	<u>\$ (25,775,418)</u>

STATEMENTS OF CASH FLOWS *(CONTINUED)*

	2004	2003
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,220,053)	\$ 777,121
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,235,626	2,458,505
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,015,573	\$ 3,235,626
SCHEDULE OF OTHER CASH FLOW INFORMATION		
Cash paid during the year for interest and dividends	\$ 2,313,940	\$ 2,670,487

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of operations** – Midwest Corporate Federal Credit Union (MCFCU) is a federally chartered corporate credit union. MCFCU lends money to its members. Money available for lending is also received from its members for which the credit union issues shares, share drafts, and share certificates.

**Cash and cash equivalents** – For the purposes of reporting cash flows, cash and cash equivalents includes amounts due from financial institutions, all of which mature within 90 days.

**Investment securities** – The Credit Union's investments in securities are classified and accounted for as follows:

- **Held-to-Maturity:** Secondary capital equity deposits which the Credit Union has the positive intent and ability to hold to maturity are reported at cost.
- **Available-for-Sale:** Government and government agency bonds, notes, and certificates are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the date of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio.

The Credit Union owns common stock in CNBS, Inc. Because CNBS, Inc. is a closely-held company and its stock value is not readily determinable, the Credit Union has recorded the investment at cost.

NOTE 1 – (CONTINUED)

The Credit Union is a member of Corporate Access, LLC and Primary Financial, LLC. Because Corporate Access, LLC and Primary Financial, LLC are closely-held companies and their value is not readily determinable, the Credit Union has recorded the investments at cost.

**Loans** - Loans are reported at their outstanding principal balance.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 60 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Credit Union has determined that the application of Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," does not have a material effect on their financial statements. As such these fees and costs have been recognized during the period they are collected and incurred.

**Allowance for loan losses** – The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. At December 31, 2004 and 2003, management has determined that an allowance for loan losses was not required.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. There were no impaired loans as of December 31, 2004 and 2003.

NOTE 1 – (CONTINUED)

**Property and equipment** – Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Vehicle	5 years
Computer equipment	2 years
Furniture and equipment	10 years

**Members' deposit accounts** – Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposit accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' deposit accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

**Members' equity** – The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

**Income taxes** – Midwest Corporate Federal Credit Union is exempt by statute from federal and state income taxes.

**Future dated ACH** - The future dated ACH account is an automated clearing house account. The asset and liability accounts have equal balances on the balance sheet. NCUA began to require this account for corporate credit unions in 2001.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NOTE 2 - **INTEREST BEARING DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS**

Interest bearing deposits with other financial institutions consist of the following:

	<u>2004</u>	<u>2003</u>
U.S. Central Credit Union		
Certificates of deposit	\$ 78,150,000	\$ 93,850,000
Daily deposit	36,234,965	36,088,772
Membership capital shares	3,664,273	4,391,397
Paid in capital shares	3,300,000	3,300,000
Central liquidity shares	0	2,868,332
Other financial institutions		
Certificates of deposit	<u>15,162,000</u>	<u>20,653,000</u>
	<u>\$ 136,511,238</u>	<u>\$ 161,151,501</u>

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

Accounts at U.S. Central Credit Union are insured by NCUA up to \$100,000. The Credit Union currently has \$121,249,238 in cash equivalents in excess of insurance coverage.

**NOTE 4 – INVESTMENT SECURITIES – HELD-TO-MATURITY**

2004

	<u>Rate</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>
Securities held-to-maturity:					
Secondary capital deposits	5.50%	<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 500,000</u>

The amortized cost and estimated fair value of investment securities at December 31, 2004, by contractual maturity, are shown below:

	<u>Securities Held-to-maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due after nine years through ten years	<u>\$ 500,000</u>	<u>\$ 500,000</u>

There were no securities and certificates pledged as of December 31, 2004, to secure public deposits and for other purposes required by law.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**NOTE 5 – INVESTMENT SECURITIES – AVAILABLE-FOR-SALE**

2004

	<u>Rate</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>
Securities available-for-sale:					
Asset backed pass through securities	2.45% to 2.65%	<u>\$ 1,237,781</u>	<u>\$ 585</u>	<u>\$ 0</u>	<u>\$ 1,238,366</u>

2003

Securities available-for-sale:					
Asset backed pass through securities	1.20% to 1.40%	<u>\$ 3,244,729</u>	<u>\$ 1,111</u>	<u>\$ (58)</u>	<u>\$ 3,245,782</u>

The amortized cost and estimated fair value of investment securities at December 31, 2004, by contractual maturity, are shown below:

NOTE 5 – (CONTINUED)

	<u>Securities Available-for-sale</u>	
	Amortized Cost	Estimated Fair Value
Due within four years	\$ 635,548	\$ 635,703
Due after four years	602,233	602,663
	<u>\$ 1,237,781</u>	<u>\$ 1,238,366</u>

There were no securities and certificates pledged as of December 31, 2004, to secure public deposits and for other purposes required by law. Securities with an amortized cost of \$2,005,246 and an estimated fair value of \$2,006,288 were pledged as of December 31, 2003 to the Federal Reserve Bank as collateral on their deposits.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 6 – **OTHER INVESTMENTS**

Midwest Corporate Federal Credit Union is a corporate member of the U.S. Central Credit Union (USCCU) and, as such, owns capital shares of the USCCU. On January 1, 1998, USCCU transferred ownership of CNBS, Inc. (CNBS), a wholly-owned registered broker/dealer, to the 36 corporate credit unions. Each corporate credit union received 1,000 shares of Class A common stock of CNBS.

The above transaction was treated as a non-cash dividend from USCCU. Midwest Corporate Federal Credit Union recorded the transaction as an investment and non-cash dividend income in an amount of \$104,980, which is the book value of the 1,000 shares received. On January 12, 1998, the CNBS board of directors made an offer to repurchase the Class A shares from the corporate credit unions for book value. Midwest Corporate Federal Credit Union's board of directors declined the offer.

Midwest Corporate Federal Credit Union also owned 101 shares of Class B common stock of CNBS at December 31, 2002. The price per share is \$90 for a value of \$9,090.

During 2003, CNBS converted both Class A and Class B stock to a single class of stock. Midwest Corporate bought 1,399 additional shares during 2003 at a cost of \$90 per share. Their total investment at December 31, 2004 and 2003 is \$239,980.

Midwest Corporate Federal Credit Union owns a membership interest in Corporate Access, LLC. The cost of the membership interest is \$10,000. Corporate Access, LLC is a five-member corporate Credit Union Service Organization formed for services yet to be determined.

Midwest Corporate purchased a share of Primary Financial, LLC during 2003 at a cost of \$50,000. Primary Financial is a 29 member corporate Credit Union Service Organization formed to administrate the SimpliCD program.

## NOTE 7 – LOANS

The components of loans at December 31, 2004 and 2003, are as follows:

	<u>Interest rate</u>	<u>2004</u>	<u>2003</u>
Member lines of credit	2.85%	\$ 6,928,804	\$ 946,152
Term loans	Various	<u>7,575,000</u>	<u>2,300,000</u>
		<u>\$ 14,503,804</u>	<u>\$ 3,246,152</u>

A summary of loans by maturity as of December 31, 2004 and 2003 is as follows:

Maturity within	<u>2004</u>	<u>2003</u>
one year	\$ 10,203,804	\$ 2,946,152
two year	1,300,000	0
over two years	<u>3,000,000</u>	<u>300,000</u>
	<u>\$ 14,503,804</u>	<u>\$ 3,246,152</u>

There were no impaired loans as of December 31, 2004 and 2003.

Member lines of credit carry variable interest rates, while term loans are carried at fixed interest rates.

## NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2004, and 2003.

	<u>2004</u>	<u>2003</u>
Vehicle	\$ 27,700	\$ 46,082
Computer equipment	27,320	35,000
Other equipment	14,689	10,877
Furniture and fixtures	29,111	29,111
Leasehold improvements	898	898
Computer software	<u>579</u>	<u>579</u>
	\$ 100,297	\$ 122,547
Accumulated depreciation	<u>52,762</u>	<u>64,123</u>
	<u>\$ 47,535</u>	<u>\$ 58,424</u>

Depreciation expense totaled \$15,601 and \$10,026 for the years ended December 31, 2004 and 2003, respectively.

## NOTE 9 - MEMBERS' DEPOSITS

The composition of members' deposits at December 31, 2004 and 2003 is as follows:

	<u>Rates at December 31, 2004</u>	<u>2004</u>	<u>2003</u>
Daily high yield	2.12%	\$ 77,883,826	\$ 108,492,785
Uncollected deposits	0.00%	1,664,656	2,691,993
Membership capital share deposits	2.18%	<u>5,821,918</u>	<u>5,525,053</u>
		<u>\$ 85,370,400</u>	<u>\$ 116,709,831</u>

NOTE 9 – (CONTINUED)

	Rates at December 31, 2004	<u>2004</u>	<u>2003</u>
Share certificates	Under 2.00%	\$ 20,997,000	\$ 25,097,911
	2.01 to 3.00%	30,300,000	13,293,000
	3.01 to 4.00%	4,050,000	3,600,000
	above 4.01%	<u>1,200,000</u>	<u>3,300,000</u>
		<u>\$ 56,547,000</u>	<u>\$ 45,290,911</u>
Total shares and certificates		<u>\$ 141,917,400</u>	<u>\$ 162,000,742</u>

At December 31, 2004, the scheduled maturities of share certificates are as follows:

2005	\$ 45,097,000
2006	4,800,000
2007	4,950,000
2007	1,500,000
2008	<u>200,000</u>
	<u>\$ 56,547,000</u>

The aggregate amount of member shares and savings certificates in excess of NCUA insurance coverage of \$100,000 was approximately \$136,498,000 and \$156,176,000 at December 31, 2004 and 2003, respectively. The membership capital share deposits are not covered by NCUA insurance.

NOTE 10 - **BORROWED FUNDS**

Midwest Corporate Federal Credit Union maintains a line of credit with the U.S. Central Credit Union (USCCU) providing MCFCU with borrowings not to exceed \$50,000,000.

Additionally, the Credit Union has a line of credit with the Bank of North Dakota providing MCFCU with borrowings not to exceed \$2,000,000.

At December 31, 2004, all Midwest Corporate Federal Credit Union borrowings were fixed interest rate, term loans from U.S. Central Credit Union.

At December 31, 2004 and 2003, a summary of borrowings is as follows:

<u>Loan Number</u>	<u>Interest Rate</u>	<u>2004</u>	<u>2003</u>
L-030-007	2.1601%	\$ 2,000,000	\$ 0
L-030-008	2.4097%	500,000	0
L-030-002	2.3703%	500,000	0
L-030-000	4.7803%	300,000	300,000
L-030-009	2.9397%	500,000	0
L-030-003	3.5901%	1,000,000	0
L-030-001	3.0003%	500,000	0
L-090-000	1.1500%	0	2,868,332
L-030-010	3.3901%	500,000	0
L-030-005	3.8299%	<u>1,000,000</u>	<u>0</u>
		<u>\$ 6,800,000</u>	<u>\$ 3,168,332</u>

NOTE 10 – (CONTINUED)

At December 31, 2004, the scheduled maturities of borrowings are as follows:

2005	\$	2,500,000
2006		1,300,000
2007		<u>3,000,000</u>
	\$	<u>6,800,000</u>

NOTE 11 - **RELATED PARTY TRANSACTIONS**

Midwest Corporate Federal Credit Union has entered into a contract with the North Dakota Credit Union League whereby the League provides administrative services, employees, use of equipment, and floor space for the Credit Union. Total expenses incurred by Midwest Corporate Federal Credit Union for overhead expenses were \$345,514 and \$296,617 for the years ended December 31, 2004 and 2003, respectively. The Credit Union has recorded liabilities payable to the North Dakota Credit Union League of \$31,426 and \$25,146 as of December 31, 2004 and 2003, respectively.

NOTE 12 - **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments are commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As of December 31, 2004, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$120,380,000 of which \$6,929,803 had been funded, leaving an unfunded commitment of \$113,451,197. At December 31, 2003, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$105,535,000, of which \$946,152 had been funded, leaving an unfunded commitment of \$104,588,848.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Also, in its sole discretion, the Credit Union may at anytime refuse any requests from the member for a loan advance. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis.

NOTE 12 – (CONTINUED)

The amount of collateral obtained, if it is deemed necessary by the Credit Union upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral includes substantially all the assets of the member credit union. The Credit Union has not incurred any losses on its commitments in 2004 or 2003.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, “Disclosures About Fair Value of Financial Instruments,” requires the disclosure of estimated fair values of all asset, liability, and off-balance-sheet financial instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the Credit Union’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Credit Union’s financial instruments as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 2,016	\$ 2,016	\$ 3,236	\$ 3,236
Interest bearing deposits with other financial institutions	136,511	140,188	161,152	164,746
Investment securities	1,738	1,738	3,246	3,246
Loans	14,504	14,503	3,246	3,263
Interest receivable	<u>4,345</u>	<u>4,345</u>	<u>344</u>	<u>344</u>
Total financial assets	<u>\$ 159,114</u>	<u>\$ 162,790</u>	<u>\$ 171,224</u>	<u>\$ 174,835</u>

	2004		2003	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial liabilities:				
Members’ deposits	\$ 141,917	\$ 141,708	\$ 162,001	\$ 162,130
Borrowed funds	6,800	6,800	3,168	3,168
Interest payable	<u>133</u>	<u>133</u>	<u>44</u>	<u>44</u>
Total financial liabilities	<u>\$ 148,850</u>	<u>\$ 148,641</u>	<u>\$ 165,213</u>	<u>\$ 165,342</u>

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

NOTE 13 – (CONTINUED)

**Cash and cash equivalents** – The carrying amounts approximate their fair value.

**Interest bearing deposits with other financial institutions** – Fair values for interest bearing deposits with other financial institutions are based on quoted market prices.

**Investment securities** – Fair values for investment securities are based on quoted market prices. The fair values of investments in government corporations approximate carrying values.

**Loans** – For all variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

**Deposits** – The fair values disclosed for share accounts are, by definition, equal to the amount payable on demand at the reporting date (carrying amounts). Fair values for fixed-rate share certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected maturities on time deposits.

**Borrowed funds** – The fair values of the Credit Union’s borrowed funds are estimated using discounted cash flow analysis based on the Credit Union’s current incremental borrowing rates for similar types of borrowing arrangements.

**Accrued interest** – The carrying amounts of accrued interest approximate their fair values.

NOTE 14 - **ADVERTISING COSTS**

Advertising costs, which were expensed as incurred, totaled \$11,201 and \$11,365 for the years ended December 31, 2004 and 2003, respectively.

NOTE 15 - **OTHER COMPREHENSIVE INCOME**

Changes in and determination of accumulated other comprehensive income are as follows:

	Unrealized Gain (Loss) on Securities Available for Sale	
	2004	2003
Balance, beginning of year	\$ 1,053	\$ (65)
Unrealized holding gains (losses) arising during the period	(468)	1,118
Balance, end of year	<u>\$ 585</u>	<u>\$ 1,053</u>

**NOTE 16 – REGULATORY CAPITAL**

MCFCU is required under NCUA Regulations Section 704 to maintain a minimum capital ratio (capital divided by 12 month rolling daily average net assets (DANA)) of at least 4 percent. The NCUA defines capital as total retained earnings plus member capital shares. At December 31, 2004 and 2003, MCFCU's capital ratio was 7.69% and 6.34%, respectively.

SUPPLEMENTARY INFORMATION

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**SCHEDULES OF NON-INTEREST EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Salaries and benefits	\$ 286,732	\$ 241,947
Occupancy and equipment expenses	15,936	15,518
Administrative expenses	23,226	21,720
General expenses	23,993	18,469
Travel and conferences	25,408	33,194
Bank service charges	109,815	101,111
Examination fees	19,913	23,686
Bond premium	4,721	4,912
Dues	8,550	8,550
Annual meeting	9,944	12,081
Audit expense	16,000	16,365
Directors and officers liability insurance	2,474	2,015
Advertising and marketing	11,201	11,365
Depreciation	15,601	10,026
Telephone charges	10,903	12,124
Donations and contributions	2,207	1,064
Business resumption facility fee	2,400	2,400
Consulting fees	35,442	33,601
Miscellaneous	<u>2,555</u>	<u>2,998</u>
	<u>\$ 627,021</u>	<u>\$ 573,146</u>